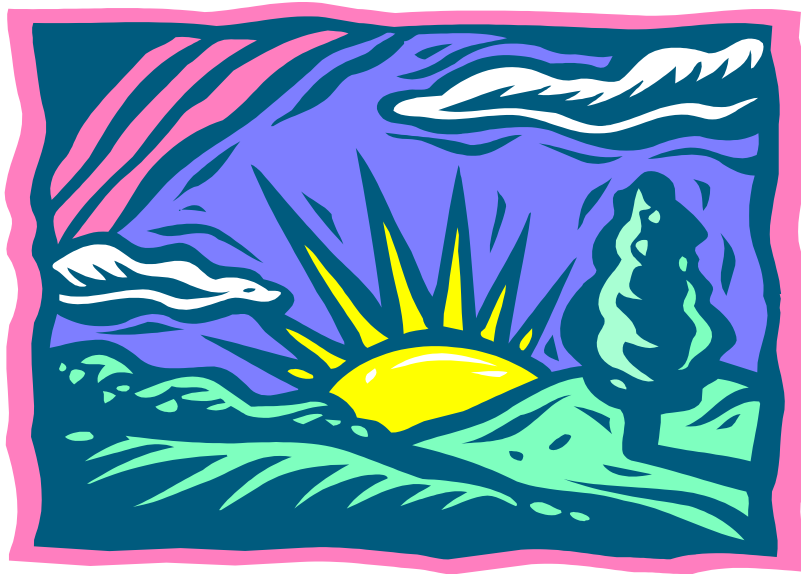


Conservation District Planning Guide

Updated for Fiscal Year 2003

7/03



GO TO: [Background](#) [Accountability](#)
 [Legal Compliance](#) [Financial](#)
 [Single Audit](#)
 [Appendix 1 - RCWs &AGM's](#)
 [Appendix II - Assessments](#)
 [Appendix III – District Budgets](#)

RELATED INTERNET SITES:

[Conservation District Findings, Management Letters, and Exit Items](#)

[BARS Manual](#)

[Washington State Conservation Commission](#)

Conservation Districts

Organizational Overview:

Conservation Districts are governed primarily by [Chapter 89.08](#) of the Revised Code of Washington. In general, the purpose of Conservation Districts is to preserve and conserve the natural resources of the state. There are 48 Conservation Districts statewide which is at least one per County.

- Along with district management and elected/appointed board members, conservation districts also have the State Conservation Commission as an oversight control. Each district is assigned a Field Operations Manager (FOM) from the Commission. FOM's are consultants for the local districts and provide monitoring by the Commission. ***The FOM's are a key contact for SAO auditors and should be consulted prior to the beginning of an audit.*** In addition, the Commission should be invited to each entrance, exit, and copied on management letters and finding. Send all correspondence to the Commission via email to: field-staff@scc.wa.gov. You can also refer to <http://www.scc.wa.gov/> for the FOM assigned to your District and other contact information.
- Districts are run by a five-member Board of Supervisors, of which three are elected through the district elections process. The remaining two are appointed by the WA State Conservation Commission. The board members are volunteer and do not receive compensation. However, board members are entitled to expenses, including travel, necessarily incurred in discharge of their duties.
- The Board of Supervisors has the ability to appoint associate or assistant supervisors. Associate supervisors are used to assist districts on various projects. These individuals are volunteers but are eligible for mileage reimbursement and other out-of-pocket expenses that are authorized by the Board. Associate supervisors do not have any powers or ability to make or pass resolutions or take action in any Board meeting. These individuals are simply volunteers to assist the district.
- Most Districts have a manager that is responsible for the daily operations of the district plus one or two other administrative staff members. Most districts are quite small with a single employee handling all the payables, cash collections, and deposits. Routine monitoring is essential in an operation of this size and is typically conducted by board members or associate members.

Business Profile:

- Generally, local districts are 99% funded through federal, state and local grants. Districts receive about \$9,750 from the State Conservation Commission as basic funding (still considered a grant). Some districts receive a small amount of money (\$1,000 - \$5,000) from the district's county and some districts have tree sales which can generate anywhere between \$1500 and \$20,000 in local receipted monies. Eight districts have imposed special assessments and receive tax revenues from the counties (refer to [Appendix II](#)).

- Districts are cash basis and complete C-4's and C-5's.
- Most conservation districts are their own treasurer. It's common for one individual to handle all district finances.
- The WA State Conservation Commission pays for each district audit. Therefore, any variance from the assigned budget must be authorized by the Commission. The Commission passed a policy on 5/17/01 stating that the Commission must approve any audit costs above the amount agreed to or the district will be responsible.
- Districts hold their own elections per [RCW 89.08.190](#) and are exempt from Public Disclosure requirements on personal financial affairs and campaign disclosure. (see revised [42.17](#)).

SAO maintains the Budgeting, Accounting and Reporting Standards (BARS) manual that formulates, prescribes and installs a system of accounting and reporting for all local governments, including conservation districts. Conservation districts follow single-entry accounting and cash-basis reporting procedures, which do not conform to Generally Accepted Accounting Principals (GAAP). [Conservation District BARS Manual Link](#)

POLICY 2105 – RISK-BASED AUDITING

All audits must be designed to meet the public's expectation of accountability. The public expects that our audits will detect important financial and compliance related events. Such an event would have to be significant and be reflected in the auditee's records available to audit. To adequately address the public's expectations, auditors will consider the risk associated with each of the following areas for every audit engagement.

- Fraud
- Not conducting business in an open and public manner
- Conflict of Interest
- Non Compliance with Contract/Bid requirements (including prevailing wage requirements)
- Management Dysfunction
- Financial Statement Misstatement/Wrong Opinion
- Constituent Referrals and Complaints, News Stories
- Going Concern
- Shifting of Restricted Resources
- Budget deficits/Exceeding the Budget
- Inappropriate Use of Bond Proceeds/legality of debt
- Nonpayment of Debt/Non Compliance with Debt Covenants
- Inappropriate Use of Public Funds
- Creating new Public Entities
- Inherently Risky Operations
- Lack of Insurance and Bonding
- Single Audit - Missing A-133 audit, Unallowable Use of Funds

- State Grants - Unallowable Use of Funds
- Illegal Investments
- Exceeding Taxation/Revenue authority

In addition to what is in the worksheet below, the auditor is responsible for complying with team and agency policies, which include performing the audit in accordance with GAAS (Generally Accepted Auditing Standards), unless a single audit is required. If a single audit is required the audit must be performed in accordance with GAS (Government Auditing Standards/yellow book).

ADMINISTRATIVE AND PLANNING

AUDIT STEP	BACKGROUND
Review Minutes (Open Public Meeting Act)	<ul style="list-style-type: none"> • Used to identify information relevant for audit. These items might include grant awards, competitive bidding, investments, etc.
Perform analytical procedures (A/P) on grant revenues and expenditures. This will also serve as a Financial Statement AP.	<ul style="list-style-type: none"> • Generally, districts are 99% funded through state and federal grants. AP should be performed to identify any significant variance/trends in grant revenues/expenditures and payroll expenses. Eight districts receive county special assessments funds. This should be considered when performing an AP review. • Examine federal expenditures and determine if a single audit is required (see Single Audit section)
Evaluate the audit environment for the significant audit elements	<ul style="list-style-type: none"> • In most of the small districts, monitoring will be done by the Board of Supervisors. • Inquiry should include speaking with the Field Operations Manager (FOM) at the State Conservation Commission. The FOM should also be invited to the entrance and exit.
Review prior audit issues.	<ul style="list-style-type: none"> • Review working papers, exit documents and audit reports. • Determine their status during the current audit.
Update Perm Files	<ul style="list-style-type: none"> • Remove old and outdated information
Write audit plan	<ul style="list-style-type: none"> • Using information gathered from the planning procedures above, develop a risk based audit plan that can be accomplished within your approved audit budget. • Typically, your main focus will be allowable use of funds,

	including state, local, and federal grant proceeds.
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ACCOUNTABILITY FOR PUBLIC ASSETS

High-risk audit areas are those areas where theft fraud and abuse can occur. While losses in high risk areas are not usually material to the financial statements they are of interest to citizens. High-risk areas usually concern cash receipting operations, disbursements, assets, and decentralized operations. Our focus on the internal control review and the results of analytical procedures will help determine what detailed testing needs to be performed.

Review the Conservation District Procedure Manual, available at <http://www.scc.wa.gov/>, File Cabinet, Procedure Manual for administrative policies and procedures.

AUDIT STEP	BACKGROUND
Grant Allowability/ Expenditures	<ul style="list-style-type: none"> • The number one focus of the audit should be state grant compliance and allowability of expenditures. • Consideration should be given to the following: <ul style="list-style-type: none"> - Cost Allocation Method - Bid law violations - Travel expenses reimbursed by grants - Conflicts of interest • Obtain and review the cancelled checks and vendor listing (<i>remember most of the district's accounting software does not have controls in place to ensure that information isn't deleted from the system so cancelled checks are a better source</i>). • A significant number of grants are awarded to local farmers/land owners, often as part of a "cost share" program. Test to determine if the District is monitoring the use of these funds, and is performing progress inspections to ensure grant agreement is followed.
Gift of Public Funds/ Credit Not to be loaned (State Constitution Art.VIII 5&7)	<ul style="list-style-type: none"> • Districts have attempted to provide youth camp scholarships. Review the AGM in the background section. This is considered a gift of public funds.
Evaluate and test payroll system	<ul style="list-style-type: none"> • All most all of the Payroll expenditures are reimbursed by grants. <i>This area can be reviewed with the grant allowability/expenditures.</i> • Employees should be able to support the time worked on each grant (allowability). • Special attention should be given to use of labor rate and ensure the District is not double charging for sick, vacation, and holiday as this is included in the labor rate. • Note: Board members do NOT receive compensation for services except travel or reimbursement of expenses. (RCW 89.08)

Local Receipting	<ul style="list-style-type: none"> Most districts receive a small amount of money from tree sales. The Commission is currently establishing policies and procedures for the following area surrounding tree sales at districts: <ul style="list-style-type: none"> Cash handling Ordering Inventory/surplus Monitoring
Property & Equipment	<ul style="list-style-type: none"> Most goods are purchased through grants. The assets purchased are typically classified as small and attractive and some attention should be given to monitoring and tracking of these assets.

LEGAL COMPLIANCE AREAS

The suggested legal compliance audit procedures are not intended to be all-inclusive. They are presented to assist an auditor in developing tests for the audit issues encountered. Furthermore, there is no requirement that any or all the procedures listed are to be performed on every audit. Rather, the circumstances of each situation should be assessed and the type of testing utilized should be based on those assessments.

Also note that additional references for legal compliance issues can be found in Appendix 1.

AUDIT STEP	BACKGROUND
Cash & Investments	<ul style="list-style-type: none"> Most district investments consist of purchasing time deposits. Cash and investments should be confirmed. Refer to the Investment Planning Guide for legal investments for local governments. http://office.sao.wa.gov/RefGuide/Planning Guide/Planning Guides.htm
Bid Laws/Prevailing Wages	<ul style="list-style-type: none"> This is reviewed with the Grant Allowability (high risk section) The State Conservation Commission establishes competitive Bid Policies for districts. These policies are detailed the District's Policy and Procedures Manual. Determine if small works roster or vendor list are used as indicated.
Bond Coverage for Public Officials/ Insurance	<ul style="list-style-type: none"> Review the bond coverage which covers employees and public official dishonesty and faithful performance. Document the entity's insurance coverage. If the entity procures insurance, review expenditures to ensure premiums have been paid.

FINANCIAL STATEMENTS

AUDIT STEP	BACKGROUND
Audit Financial Statements	<ul style="list-style-type: none"> This should primarily be done by the work performed in the accountability section (grant expenditures/payroll) and Planning Section (analytical review).

SINGLE AUDIT

Most Districts do not receive \$300,000 or more in federal funding. The Conservation Commission does not pay for single audits. If a single audit is required, the auditor will need to obtain an agreement for payment of single audit services from the District, and contact fiscal to set up billing and payment.

AUDIT STEP	BACKGROUND
Audit Federal Expenditures	<ul style="list-style-type: none"> During the analytical procedures it should have been determined if an A-133 single audit was required. Review the Single Audit Planning Guide if a single is required.

Appendix I

General Legal Compliance Reference Guide

AGM 11/6/00	Provision of Scholarships – Conservation districts not only lack authority to provide scholarships, provision of such scholarships is a prohibited gift under Article VIII § 7 of the Washington State Constitution.
AGM 8/13/96	Act as own Treasurer - A conservation district is a local government entity and may act as its own custodian of public funds, may invest or deposit its own funds subject to the general limitations on the investment and deposits under Chapter 39.58 RCW , and warrants of conservation districts are to be issued by the county auditor.

Subject	Title	Chapter
Bid Laws	Exemptions to competitive bidding requirements	39.04.280
General	Purpose	89.08.010
	Commission	89.08.030
	Members Compensation/Travel	89.08.040
	Employees – Delegation – Quorum	89.08.050
	Assistance of other state agencies	89.08.060
	To form District	89.08.080
	Boundary Changes	89.08.180
	Local Gov Acct-Annual Rpt-Comp Statistics	43.09.230
Commission	General Duties	89.08.070
Elections	Notice of Hearing	89.08.090
	How conducted	89.08.110
	Ballots	89.08.120
	Notice of Election	89.08.130
	Expense of hearing & Election	89.08.140
	Procedures after canvass	89.08.150
	Appointment of Supervisors	89.08.160
	Nomination and elections	89.08.190
	Supervisors Terms	89.08.200
Powers	Duties of Supervisors	89.08.210
	Powers of District	89.08.220
Funding	Water Rights Preserved	89.08.390
	Grants to Districts	89.08.410
	Watershed Restoration Projects	89.08.450-510

Appendix II

List of districts that receive Special Assessments

<u>District</u>	<u>MCAG</u>
Franklin	2394
King County	2404
Kitsap	2405
Lincoln	2411
North Yakima	0670
South Yakima	2742
Spokane	0667
Thurston	2424

Appendix III

Budgets – Excel File